Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Petition of AT&T Communications of Virginia, Inc., Pursuant to Section 252(e)(5) of the Communications Act, for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon-Virginia, Inc.	)	CC Docket No. 00-251

REVISED DIRECT TESTIMONY OF
DAVID L. TALBOTT
AND JOHN D. SCHELL, JR.
ON BEHALF OF AT&T[1]
PUBLIC VERSION

ISSUES ADDRESSED	
Issue III.4	***Forecasting*** Should AT&T be required to forecast Verizon's originating traffic and also provide for its traffic, detailed demand forecasts for UNEs, resale and interconnection?
Sub Issue III.4.A.	Should Verizon be allowed to penalize AT&T in the event AT&T's trunk forecasts subsequently prove to be overstated?
Issue VII.2	Should the Parties' interconnection agreement reflect their recent agreement on Demand Management Forecasts?
Issue VII-7	Should AT&T deliver untranslated 8YY traffic to the appropriate Verizon access tandem?

September 10, 2001

[1] This Affidavit is presented on behalf of AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. (together, "AT&T").

Q. PLEASE STATE YOUR NAMES, BUSINESS ADDRESSES AND POSITIONS FOR THE RECORD.

A. My name is David L. Talbott; I am a District Manager in the Local Services and Access Management group in AT&T Network Services. In this position, I am responsible for the development and negotiation of interconnection agreements between AT&T and incumbent local exchange carriers, focusing on network interconnection issues. My business address is 3737 Parke Drive, Edgewater, Maryland 21037. A statement of my qualifications is annexed hereto as Exhibit DLT-1.

My name is John D. Schell, Jr. I am a contract employee in the Local Services Access Management group in AT&T Network Services. My business address is 3033 Chain Bridge Road, Oakton, Virginia 22185. A statement of my qualifications is annexed hereto as Exhibit JDS-1.

Q. PLEASE DESCRIBE THE SCOPE OF YOUR TESTIMONY.

A. Our testimony pertains to all of the issues on the Decision Point List ("DPL") under the heading of Network Architecture and to three issues under the heading of Intercarrier Compensation. For the convenience of the Commission, we have included an index of the issues addressed in our testimony as Exhibit DLT-2 to our testimony.

Q. CAN YOU SUMMARIZE THE IMPORTANCE OF THE NETWORK ARCHITECTURE ISSUES TO AT&T?

A. The network architecture and intercarrier compensation issues before the Commission raise fundamental concerns about the interconnection of CLEC and

ILEC networks (e.g., the number and location of POIs) and how, or even whether, the parties will compensate each other for the transport and termination of traffic originating on the other party's network.

An overview of Verizon's network architecture proposals reveals that they are designed to maximize AT&T's costs, minimize its network efficiencies and prevent AT&T from providing legitimate competitive services, while at the same time requiring it to provide Verizon with services or support that AT&T is not otherwise required to provide. In summary, Verizon's individual network architecture proposals add up to a comprehensive strategy to sabotage, from every angle possible, AT&T's attempts to enter the competitive marketplace. While the effect of some proposals are clearly devastating in their impact on AT&T's competitive entry plans when viewed in isolation, the Commission also needs to consider the cumulative effect of the individual proposals taken together.

It is important to recognize that neither AT&T nor any other CLEC has yet achieved the volume and density of customers of even the smallest non-rural ILECs such as Southern New England Telephone or Cincinnati Bell Telephone. Obviously, AT&T and other CLECs face enormous challenges in competing with the incumbents that possess massive numbers of customers and ubiquitous networks. However, the most frequently overlooked competitive advantage that the ILECs possess, is the paradigm of how a local telephone network should look and operate. Regulators should not reasonably expect or require AT&T or any other CLEC to deploy new telephony networks that duplicate the architecture of the incumbent LEC networks. Such a mandate would be economically disastrous

for CLECs and would severely hinder the development of competition in Virginia. Even Verizon, if it were to rebuild its network from a clean slate, would likely not deploy the same network architecture today. Rather, it would develop an architecture that takes advantage of the costs and benefits of the latest switching and transport technology. Yet Verizon, in several of its network architecture proposals in this case, is asking the Commission to apply the traditional local telephony paradigm in determining how emerging networks should be interconnected with its network.

Of course, the insidious property of any paradigm is that the observer does not even realize that he or she is viewing the world through the skewed lens of the held paradigm. Thus, the Commission should be aware of and resist Verizon's efforts to apply a traditional local telephony paradigm as the basis for resolution of the network architecture issues, since this perspective would impose substantial unnecessary additional costs on AT&T and other CLECs. The Commission should avoid relying upon the traditional local telephony paradigm and instead re-assert those policies and rules that accommodate the substantially different strategies, network designs and economic constraints of AT&T and other CLECs in order to promote the development of a healthy, efficient competitive environment. Any relaxation or revision of these rules will only further entrench the incumbent's position in the marketplace.

Q. PLEASE EXPLAIN IN MORE DETAIL THE NETWORK ARCHITECTURE DIFFERENCES BETWEEN ILEC AND CLEC NETWORKS.

A. Verizon's network has been deployed over the past hundred years to provide ubiquitous service across its certificated territory. We would describe Verizon's network as a multi-layer or tiered network. This hierarchical or layered network was deployed when there were significant distance limitations on local loop technology, resulting in many switches deployed in the neighborhoods. Therefore, Verizon has many end office switches spread out over its service area and installed in the neighborhoods populated by its customers. These end office switches are interconnected by an overlaying network of tandem switches. When certain volume levels are achieved and it is cost effective, Verizon establishes high usage trunk groups that directly link end office switches (bypassing the tandems). Verizon's network architecture is depicted in Exhibit DLT-3 to our testimony. As we understand it, Verizon finds the use of its tandem switches to be the least costly method of interconnecting many end offices until certain traffic thresholds are achieved between two end offices, and only then is it more efficient for Verizon to directly connect the two end offices.

Facilities-based CLECs, such as AT&T, which enter a market with few or no customers, are faced with the considerable challenge of how and where to profitably deploy transport facilities and switching systems, considering the relatively low density of customers and traffic volume forecasted over the planning period. One area of technological advancement that has made facilities-based market entry a possibility is the substantial decrease in the cost of high-capacity fiber-optic facility systems. In fact, some economists assert that distance

has become an irrelevant factor in telephony markets and that this trend will also eventually affect local telephony[1]. Accordingly, AT&T's switches[2] are deployed to take advantage of the efficiencies of today's transport technology. This allows AT&T to reduce somewhat the negative economics associated with deploying a network for an initially small customer base.

Currently, AT&T has a menu of options that it can use to economically connect end users located relatively far from a switch. These options include: (1) high capacity fiber optic rings to commercial buildings and multiple dwelling units; (2) hybrid fiber coax plant being deployed by AT&T's cable TV properties; (3) fixed wireless technology such as 38 gHz systems, (4) UNE loop resale through AT&T collocation in Verizon end offices, and (5) dedicated high-capacity facilities (in some cases using special access services purchased from Verizon but more appropriately through combinations of UNEs). Due to the very high initial cost of switching platforms as compared to the lower incremental cost of high-capacity facility systems, AT&T has chosen to deploy fewer switches and more transport on the end-user side of the switch. Even where AT&T has determined the need for multiple switches within a LATA, they are often collocated within the same building to reduce real estate costs and to rely upon centralized technical staff. AT&T's network architecture is depicted in Exhibit DLT-4 to our testimony.

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[1] Testimony of Lee L. Selwyn GA PSC Docket No. 13542-U.

Consistent with AT&T's architecture, there are certain LATAs in which AT&T has not deployed a switch physically within the LATA. AT&T has agreed that in such cases it will establish at least one physical Point of Interconnection (POI)[3] within the LATA, and AT&T will provide all of the facilities (for both originating and terminating traffic) between its switch and such POI. Where AT&T has not deployed a switch within a LATA, the POI will be treated as if it were an AT&T switch (i.e., AT&T has virtually extended its switching functionality into the LATA to the POI). The AT&T architecture, therefore, provides a switch (or switching presence) in every Verizon LATA to which AT&T offers local services.

Although AT&T's and Verizon's networks are similar in the sense that the two networks cover comparable geographic areas, a key distinction between the two networks is that while Verizon deploys tandems to interconnect multiple switches spread throughout the geographic area and then grows into dedicated high usage trunk groups between such switches, AT&T deploys a single switch combined with long transport on the end-user side of the switch, because that combination is less costly than adding a new switch in each part of a market.

As we will explain in more detail below, Verizon's point of interconnection proposal requires AT&T to adapt its network design to Verizon's. This proposal

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2 Although AT&T switches normally provide both an end office and tandem function and are really multi-function switches, I will refer to them in this testimony simply as "switches."

3 As will be discussed in more detail later in my testimony, POI means the point at which the two networks are interconnected for the mutual exchange of traffic.

would result in AT&T losing the benefits of its efficient network architecture and incurring higher network costs. Also, Verizon's proposal would shift to AT&T the transport costs that Verizon is required to lawfully bear under the Telecommunications Act of 1996[4]. AT&T's proposal, on the other hand, is neutral to network design in that it requires each party - regardless of network design - to be responsible for all of the costs of its own originating traffic.

[4] Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Sate.56 (the "Act").

Issue I.1 ***Point of Interconnection*** Should each Party be financially responsible for all of the costs associated with its originating traffic that terminates on the other Parties' network; regardless of the location and/or number of points of interconnection, as long as there is at least one Point of Interconnection per LATA?

Q. PLEASE DESCRIBE ISSUE I.1.

A. This first issue, which has developed mainly because of the differing network architectures referenced above, is described in the DPL as follows: "Should each Party be financially responsible for all of the costs associated with its originating traffic that terminates on the other Parties' network; regardless of the location and/or number of points of interconnection, as long as there is at least one Point of Interconnection per LATA?" As we will explain in below in more detail, AT&T's answer to this question, which is consistent with applicable law, is yes.

Q. ISN'T THIS ISSUE BEING EXAMINED BY THE FCC IN ITS RECENT NPRM ON INTERCARRIER COMPENSATION?

A. Yes. This issue, which involves a dispute about who will bear what portion of the costs of transporting local traffic between interconnected ILEC and CLEC networks, has significant financial consequences for CLECs across the country. AT&T has been required to arbitrate this matter for each and every ICA it is has re-negotiated. The Commission has recently recognized the significance and controversy surrounding this issue in its NRPM Developing a Unified Intercarrier Compensation Regime.[5] This NPRM is examining all intercarrier compensation issues; including those related to obligations to transport originating traffic to the

POI, as well as reciprocal compensation obligations that relate to the obligations to transport and terminate traffic beyond the POI.

AT&T agrees that the broad impact of this issue justifies, if not requires, that a decision on these interconnection matters be based on input from a broad set of industry interests. Accordingly, it is AT&T's position that any decision in this arbitration should be based on current law only. This arbitration should not be used to make new policy decisions that will have a significant impact on the local telephony competitive landscape, and that could be reversed upon the completion of a more complete and comprehensive review in the InterCarrier Compensation NPRM. It is for this reason that we will not address possible revisions to the current rules and policies relating to network architecture issues, but only address how our proposal is consistent with the Act and current FCC rules and policies relating to interconnection.

Q. CAN YOU EXPLAIN HOW THIS ISSUE RELATES TO THE ISSUE OF ESTABLISHING A POI?

A. Yes. In order to adequately address this issue, which involves a dispute about who should bear what portion of the costs of transporting local traffic between the AT&T and Verizon networks, it is necessary to clarify certain definitions relating to POI, interconnection and reciprocal compensation. If these terms are not appropriately defined, then the rights and obligations associated with transporting traffic between the two networks cannot be understood.

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[5] In the Matter of Developing a Unified Intercarrier Compensation Regime, *CC Docket*

The terms interconnection and POI are integrally related to the issue of transport obligations. Interconnection is the physical linking of two networks for the mutual exchange of traffic.[6] The Point of Interconnection, or POI, is the *location* where the parties mutually exchange their traffic.

The originating party can bring its traffic to a POI for interconnection in a variety of ways. It can provide the facilities itself, lease interconnection facilities from third parties, or lease interconnection facilities from the other party. In any event, the leased facilities are part of the originating party's network and the POI is still the point at which the two networks are interconnected for the mutual exchange of traffic.

Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE POI.

A. Each carrier is responsible for delivering its originating traffic to the POI. Between the originating customer and the POI, the costs of delivery are identified as the origination costs, and the facilities that bring the traffic to that point are the interconnection facilities.[7] From the POI to the terminating customer, the other carrier must assume operational responsibility to take that traffic to the designated end user and the originating carrier must pay the terminating carrier for the costs

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No. 01-92, Notice of Proposed Rulemaking, (Rel. Apr. 27, 2001)) at ¶113 ("InterCarrier Compensation NPRM").

6 In the Matter of Implementation of the Local Competition Provision in the Telecommunications Act of 1996, *First Report and Order*, 11 FCC Rcd. 15499, 172, 176 (1996) ("Local Competition Order").

7 Interconnection facilities are the physical transmission channels that transport traffic between the AT&T and Verizon switches that are used for local and intraLATA toll traffic.

of that carriage. These costs associated with the terminating side of the POI, are generally known as the termination costs. If the call is local, the originating carrier compensates the terminating carrier for that delivery pursuant to reciprocal compensation obligations which are set forth in the Act in Section 251(b)(5).[8] If the call is not a local call, then access charges rather than reciprocal compensation charges apply. The issue we are discussing involves the carrier's obligations with respect to local calls.

Thus, by selecting a particular POI location, a carrier affects both the amount of reciprocal compensation it pays the other party and its own network costs.

Q. HOW IS THE POI LOCATION SELECTED?

A. The Act and FCC orders provide that new entrants may interconnect at any technically feasible point. Specifically, Rule 51.305(a)(2) obligates Verizon to allow interconnection by a CLEC at any technically feasible point. In its *Local Competition Order*, the FCC explained:

> The interconnection obligation of section 251(c)(2), discussed in this section, allows competing carriers to choose the most efficient points at which to exchange traffic with incumbent LECs, thereby lowering the

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[8] Reciprocal compensation is broken down into two parts – the transport portion which is transmission and any necessary tandem switching from the POI to the terminating carrier's end office switch that directly serves the called party; and the termination portion, which involves the switching of the traffic at the terminating carrier's end office switch or equivalent facility and delivery of that traffic to the called parties premises. See 47 C.F.R. 51.701(c)(d). AT&T does not disagree with the principle behind Verizon's position on Issue VII-8, and AT&T's language is consistent with that principle.

> competing carriers' costs of, among other things, transport and termination of traffic.[9]

The FCC identified the Act as the source of these differing obligations:

> Section 251(c)(2) does not impose on non-incumbent LECs the duty to provide interconnection. The obligations of LECs that are not incumbent LECs are generally governed by sections 251(a) and (b), not section 251(c). Also, the statute itself imposes different obligations on incumbent LECs and other LECs (i.e., section 251(b) imposes obligations on all LECs while section 251(c) obligations are imposed only on incumbent LECs).[10]

Q. DOES THE ACT ENTITLE THE CLEC TO SELECT A SINGLE POI?

A. Yes. Section 251(c)(2) gives the CLEC the right to select where it wants to interconnect, a right which enables it to establish, if it wishes, as few as one POI per LATA. This rule and policy that allows a single switch presence per LATA enables new entrants to grow their business economically without having to duplicate the ILEC's existing network.

Q. CAN AN ILEC ALSO SELECT ITS POI?

A. No, that is a right reserved for the CLECs, not the ILECs. There is no concurrent right for the ILEC to select an interconnection point or POI. If Congress had wanted ILECs to have the ability to designate interconnection points and to have CLECs bear the same duty in establishing interconnection points that ILECs have, it would have specifically granted ILEC's that right as it did for non-incumbent carriers in § 251(c)(2). That right, however, is not specified for ILECs and is

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9 *Local Competition Order* at ¶ 172 (emphasis added).

clearly not included in the ILEC's interconnection obligations set forth in § 251(c)(2). Verizon may not assume some authority that is not provided for in the Act.

Q. HAS THE FCC PREVIOUSLY ADDRESSED THIS ISSUE?

A. Yes. The FCC's statements on this issue are clear. The FCC has consistently applied this statute to prevent ILECs from increasing CLEC's costs by requiring multiple points of interconnection. In its order approving SWBT's application for interLATA authority in Texas, the FCC made clear that this provision gives competing local providers the option to interconnect at as few as one technically feasible point within each LATA.[11] As the FCC explained:

> New entrants may select the most efficient points at which to exchange traffic with incumbent LECs, thereby lowering the competing carriers' cost of, among other things, transport and termination.

The FCC was very specific:

> Section 251, and our implementing rules, require an incumbent LEC to allow a competitive LEC to interconnect at any technically feasible point. This means that a competitive LEC has the option to interconnect at only one technically feasible point in each LATA.

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10 *Id.* at ¶ 220.

11 Memorandum Report and Order, *Application by SBC Communications Inc., Southwestern Bell Telephone Company, And Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services In Texas*, CC No. 00-65, ¶ 78 (rel. June 30, 2000) (hereinafter *"Texas 271 Order"*).

(citing *Local Competition Order* ¶¶ 172, 209).[12]

The FCC has found the right of a competing carrier to choose the point of interconnection, and conversely the unlawfulness of any attempts by incumbents to dictate points of interconnection, sufficiently clear and compelling to intervene in court reviews of interconnection disputes. For example, in an interconnection dispute in Oregon, the FCC intervened as *amicus curiae* and urged the court to reject US West's argument that the Act requires a competing carrier to "interconnect in the same local exchange in which it intends to provide local service."[13] The FCC stated:

> Nothing in the 1996 Act or binding FCC regulations requires a new entrant to interconnect at multiple locations within a single LATA. Indeed, such a requirement could be so costly to new entrants that it would thwart the Act's fundamental goal of opening local markets to competition. *Id.* at 20.

The FCC based its argument on both statutory and policy grounds.

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[12] The FCC made a similar pronouncement in a January 2001 Order granting in region interLATA authority to SWBT for Kansas and Oklahoma. *Memorandum and Order*, FCC 01-29, Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company and Southwestern Bell Communications Services, Inc. d/b/a/ Southwestern Bell Long Distance for Provision of In-region, interLATA service in Kansas and Oklahoma, CC Docket No. 00-217 (January 22, 2001)("Kansas and Oklahoma Order").

[13] Memorandum of the Federal Communications Commission as Amicus Curiae, at 20-21, *US West Communications Inc., v. AT&T Communications of the Pacific Northwest, Inc., et al.* (No. CV 97-1575-JE) (D. Or. 1998).

Q. HAVE THERE ALSO BEEN STATE COMMISSION DECISIONS AND COURT DECISIONS ON THIS ISSUE?

A. Yes. Many federal district courts also have rejected as inconsistent with Section 251(c)(2), incumbents' efforts to require competing carriers to establish points of interconnection in each local calling area.[14] A district court in Colorado recently reversed a state commission's order that a CLEC must establish an interconnection point in every local calling area.[15] The Colorado court held that under the Act and the FCC regulations, "it is the CLEC's choice, subject to technical feasibility, to determine the most efficient number of interconnection points, and the location of those points."[16]

Similarly, in Washington, the district court affirmed the state commission's determination that AT&T may establish a single interconnection point within each LATA and rejected the ILEC's contention that a CLEC must have an interconnection point in every local calling area in which it offers service.[17] The Washington court based its decision on purely statutory grounds, finding appropriate the commission's refusal to "consider the cost of a single interconnection point per LATA because '[a] determination of technical

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14 *See, e.g., US West Communications, Inc., v. Minnesota Public Utilities Commission, et al.*, No. 97-913 ADMAJB, slip op. at 33-34 (D. Minn. 1999) (rejecting US West's argument that section 251(c)(2) requires at least one point of interconnection in each local calling exchange served by US West).

15 *U.S. West Communications, Inc. v. Hix, et al.*, No. C97-D-152, (D. Colo., June 23, 2000).

16 *Id.* at 3.

17 *US West Communications v. AT&T Communications of the Pacific Northwest, Inc., et al*, No. C97-1320R, 1998 U.S. Dist. LEXIS 22361 at *26 (W.D. Wa. July 21, 1998).

feasibility does not include consideration of economic, accounting, [or] billing . . . concerns.'"[18].

Moreover, numerous state commissions that have considered this issue in an AT&T arbitration have rejected the ILEC's position and have ruled in AT&T's favor on this issue. For example, the Indiana commission recently adopted AT&T's network architecture proposal, permitting interconnection at AT&T's switch for Ameritech's traffic, and either the Ameritech tandem or end office for AT&T's traffic.[19]

The Indiana commission based its decision upon statutory, policy and equity grounds. First, the commission relied on the Act, which imposes an obligation upon the ILEC to allow AT&T to connect at any technically feasible point on its network, but includes no reciprocal obligation for AT&T. Next, the commission acknowledged that if Ameritech's proposal (which is nearly identical to Verizon's proposal) were adopted, "AT&T would be required to build its network to mirror Ameritech Indiana's – in effect – replacing Ameritech Indiana's network with a redundant AT&T network." The commission "reject[ed] the notion that Ameritech Indiana can compel a carrier to engage in this type of wasteful effort."

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[18] *Id.* at 27. *Accord U S West Communications, Inc. v. MFS Intelenet, Inc.*, No. C97-222WD, 1998 WL 350588, at 3 (W.D. Wa. 1998), *aff'd U. S. West Communications v. MFS Intelenet, Inc.*, 193 F.3d 1112, 1124 (9th Cir. 1999) ("The agency correctly applied the Act when it limited its review to the technical feasibility of the LATA connection approved in the agreement.").

[19] Decision, *Petition for Arbitration of Interconnection Rates, Terms and Conditions and Related Arrangements with Indiana Bell Telephone Company, Inc., d/b/a/ Ameritech Indiana Pursuant to Section 252(b) of the Telecommunications Act of 1996,* Cause No. 40571-INT-03 at 19.

Finally, the efficiency inherent in AT&T's proposal and the control it gives each party over its own network also was a factor in the commission's decision to adopt AT&T's interconnection proposal.[20]

In California, the state commission similarly considered both statutory and policy grounds when it decided to adopt AT&T's proposal.[21] The commission approved the arbitrator's findings that AT&T could save on its interconnection costs if it was not required to interconnect at each Pacific Bell end office. Moreover, the commission found that "AT&T is in the best position to analyze its traffic volumes and decide, in specific circumstances, whether it is more economical to interconnect at the tandem or end office." At AT&T's request, the commission set default points of interconnection at AT&T's switch and Pacific Bell's tandem switch.[22]

The Kansas Corporation Commission also rejected SWBT's interconnection point arguments and ordered that TCG should be permitted to establish an interconnection point at SWBT's local and access tandems while SWBT should establish its interconnection point at TCG's switch.[23] The Kansas commission

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[20] *Id.*, at 20-21.

[21] Opinion, *Application of AT&T Communications of California, Inc. (U 5002 C), et al., for Arbitration of an Interconnection Agreement with Pacific Bell Telephone Company Pursuant to Section 252(b) of the Telecommunications Act of 1996*, No. 00-01-022, p. 13 (CA PUC Aug. 3, 2000).

[22] *Id.* at 13.

[23] *See* Order Addressing and Affirming Arbitrator's Decision, *In the Matter of the Petition of TCG Kansas City, Inc. for Compulsory Arbitration of Unresolved Issues with See* Decision of Arbitration Panel, *AT&T Comm'ns of Michigan Inc. and TCG Detroit's Petition for Arbitration*, Case No. U-12465 (Oct. 18, 2000). *Southwestern Bell Telephone*

affirmed the decision of the arbitrator, who relied upon the Act in determining that "[t]he criterion for interconnection is whether interconnection is technically feasible at the requested point in the network." Arbitrator's Order No. 5: Decision, p. 3. The arbitrator also cited the Texas 271 Order and, upon finding that SWBT did not assert that the CLEC's proposal was not technically feasible, adopted the TCG proposal.[24]

In sum, the FCC, numerous district courts, and state commissions have consistently interpreted the Act to allow CLECs to interconnect at a single technically feasible interconnection point chosen by the CLEC. These agencies and tribunals find support for their decisions in both the language of the Act and the pro-competitive policies underlying the Act. The right of a CLEC to choose its interconnection points furthers the pro-competitive objective of the Act by allowing CLECs to choose among the most economically efficient means of interconnection, and, in particular, allowing CLECs to reduce their cost of transport and termination.

Company Pursuant to Section 252 of the Telecommunications Act of 1996, p. 9 (Aug. 7, 2000).

[24] *Id.* at 3-4. The Michigan Public Service Commission similarly rejected the ILEC's proposed interconnection points. (The Michigan Public Service Commission affirmed this portion of the Arbitration Panel's Decision by Order dated November 20, 2000). The arbitration panel found "AT&T has offered the better resolution" to the interconnection issue. Panel Decision at 4,19.

Q. YOU STATED THAT THE COSTS OF INTERCONNECTION FACILITIES ARE TO BE BORNE BY THE ORIGINATING CARRIER. WHAT SUPPORT DO YOU HAVE FOR THAT STATEMENT?

A. FCC regulations and decisions support this statement. For example, 47 C.F.R. § 51.703(b) provides:

> A LEC may not assess charges on any other telecommunications carrier for local telecommunications traffic that originates on the LEC's network.

Further, 47 C.F.R. § 51.709(b) reads:

> The rate of a carrier providing transmission facilities dedicated to the transmission of traffic between two carriers' networks shall recover only the costs of the proportion of that trunk capacity used by an interconnecting carrier to send traffic that will terminate on the providing carrier's network.

Moreover, in its *Local Competition Order,* the FCC addressed this fundamental rule that each party bears responsibility for the costs of transporting its own traffic. Specifically, the FCC explained:

> The amount an interconnecting carrier pays for dedicated transport is to be proportional to its relative use of the dedicated facility. For example, if the providing carrier provides one-way trunks that the inter-connecting carrier uses exclusively for sending terminating traffic to the providing carrier, then the inter-connecting carrier is to pay the providing carrier a rate that recovers the full forward-looking economic cost of those trunks. The inter-connecting carrier, however, should not be required to pay the providing carrier for one-way trunks in the opposite

> direction, which the providing carrier owns and uses to send its own traffic to the inter-connecting carrier.[25]

This basic principle relating to the originating carrier's obligations to bring its originating traffic to the POI has also been affirmed in numerous FCC Orders.[26] In fact, most recently in the *InterCarrier Compensation NPRM*, the FCC confirmed that this principle is set forth in its current rules. It stated: "Under our current rules, the originating telecommunications carrier bears the costs of transporting traffic to its point interconnection with the terminating carrier."[27]

Q. WHAT HAVE THE STATES SAID ABOUT THE TRANSPORT OBLIGATIONS OF THE ORIGINATING CARRIER?

A. In addition to the state decisions cited above relating to POI, which also found that the originating carrier was required to transport its traffic to the POI, there is a recent AT&T arbitration in Florida, in which the Florida Commission found that each party should be financially responsible for delivering its traffic to a POI – even if it is a single POI within a LATA.[28]

Also, in a Georgia generic proceeding that addressed the issue, a recent staff recommendation also found that for calls that originated and terminated within the same local calling area, Bell South was required to bear the costs to transport its calls to the POI. Specifically, the staff found that:

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25 *Local Competition Order* at ¶ 1062 (emphasis added).

26 See the discussion of relevant FCC decisions in AT&T's Petition at 15-18.

27 *InterCarrier Compensation NPRM* at ¶70.

> "Since the originating carrier bears the cost of transporting calls to the network of its co-carrier, Bell South should bear the responsibility for calls originated on its network that have to be hauled to a CLEC's POI within the LATA. The FCC has not made an exception from this general obligation for those instances in which a CLEC's POI that is within the LATA but not the same local calling area as the originating point of the traffic. This conclusion is consistent with the CLEC's responsibility to bear the costs of all the traffic originated on their networks."[29]

This staff recommendation was adopted by the Georgia Commission on July 23, 2001.[30]

Finally, the state of Massachusetts directly addressed this issue in a Verizon/MediaOne (now AT&T Broadband) arbitration, as well as in a Verizon interconnection tariff investigation. In both of these cases Verizon made proposals, like Verizon's proposal in this case, which would have shifted a significant portion of its interconnection transport obligations to AT&T Broadband, and in both of those cases the Massachusetts Commission rejected Verizon's proposals. The Massachusetts Commission found that each carrier has the obligation to transport its own customer's calls to the POI (and then pay

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28 *Petition by AT&T Communications of the Southern States, Inc. d/b/a/ AT&T for Arbitration of Certain terms and conditions proposed by Bell South Telecommunications, Inc. pursuant to 47 U.S.C. Sec. 252*, Dkt. No. 000731-TP at 34-46 (June 28, 2001).

29 Georgia Docket No. 13542-U at 1 (July 10, 2001).

30 The Commission ruled on the issue on July 23, 2001, but the written order has notyet been released.

reciprocal compensation to compensate the terminating carrier for the costs of transport and termination).[31]

In the Interconnection Tariff case the Massachusetts Commission stated:

> "Carriers are responsible to provide transport or pay for transport of their originating calls, including reciprocal compensation, between their own originating and the other carrier's terminating end-users customers. ....Because Bell Atlantic's GRIP proposal would require CLECs to establish additional interconnection points at Bell Atlantic tandem and end offices and does not allocate transport costs in a competitively neutral manner, we reject it. We direct Bell Atlantic to revise its tariff to eliminate the GRIP proposal and to include a provision that reflects that each carrier has an obligation to transport its own customers' calls to the destination end-user on another carrier's network or bear the cost of that transport." at 133.

Q. ARE THE ORIGINATING CARRIER'S FINANCIAL OBLIGATIONS RELATED TO THE "CALLING PARTY'S NETWORK PAYS" RULE?

A. Yes. Prior to the passage of the Act and the advent of competition, the originating carrier was responsible in most instances for the costs of originating, transporting and terminating each local call, simply because calls never left the originating carrier's network. Consistent with the originating carrier's overall financial responsibility, the originating carrier collected and retained the applicable revenue from the calling party. This is known as the Calling Party's Network Pays ("CPNP") rule.

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[31] *Bell Atlantic Interconnection Tariff,* D.T.E. 98-57 at 132-133 (March 24, 2000); *MediaOne/Bell Atlantic Arbitration,* D.T.E. 99/42/43, 99-52 at 12-13 (March 24, 2000).

The fundamental principle underlying CPNP is the fact that the calling party's carrier (network) receives the revenue from the calling party and is responsible for the costs incurred in carrying the call. Today, intercarrier compensation in Virginia is under the CPNP regime. Verizon has not made any claim to the contrary.

Q. IS VERIZON'S PROPOSAL CONSISTENT WITH THESE PRINCIPLES YOU HAVE JUST DESCRIBED?

A. No. As we will describe in more detail below, Verizon's proposal completely ignores these basic tenants of interconnection that have been affirmed by both state commissions and the FCC, as described above. Verizon's proposal (1) would enable it, rather than AT&T, to select the POIs, and (2) would transfer a substantial amount of its origination and termination costs to AT&T.

Q. HOW DOES VERIZON DESCRIBE THESE INTERCONNECTION ISSUES?

A. In its Exhibit A to Verizon's Answer to the Petitions for Arbitration ("Verizon Response") [32], Verizon has inaccurately portrayed these issues as a question of whether its subscribers should pay for the design of the AT&T network in Virginia. Verizon portrays this issue as one "caused" by AT&T and its local network design. That characterization is a biased view of the issue and entirely misses the point. This issue arises because Verizon's network and the AT&T network are configured differently, yet must still interconnect to serve a similar geographic base of customers. Those differences, therefore, are not "caused" by AT&T. Indeed, in this vein it is just as easy, and correct, to say that those

differences are "caused" by Verizon, because Verizon chose to design ***its*** local network different than AT&T's network. However, it is entirely inappropriate to look at this issue from the perspective of either Verizon's or AT&T's network. Neither network should be viewed as the "correct", "baseline", or "primary" network. Nor is it appropriate to conclude that any one network imposes interconnection costs on the other network. Rather, it is the interconnection of ***both*** networks to one another that creates additional costs that neither would bear if the networks were not required to be interconnected with one another.

Therefore, the focus of this issue should be on the harm to competition and consumers in Virginia caused by the Verizon proposal and on the illegality of the Verizon proposal under the Act and FCC regulations.

Q. PLEASE DESCRIBE THE SPECIFICS OF THE VERIZON PROPOSAL.

A. Verizon proposes that in most instances AT&T must deliver its traffic all the way to the Verizon end office - or to what Verizon describes as a "geographically relevant interconnection point" (what Verizon terms a "GRIP"). If AT&T doesn't establish a POI at every end office, then Verizon proposes that AT&T pay Verizon for the additional transport costs that Verizon is incurring to deliver its originating traffic to AT&T's POIs. For traffic originating with Verizon, Verizon proposes that it deliver its traffic only as far as the Verizon tandems, or in some cases only as far as the Verizon originating switch. Moreover, Verizon does not propose to pay AT&T anything for the costs of taking Verizon's originating

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[32] Verizon Response at 6.

traffic from the point where it delivers its traffic to AT&T's switches for termination.

The underlying assumption in this proposal is based on Verizon's assertion that it should not be required to transport its local calls beyond its local calling area.[33]. Thus, Verizon is identifying its local calling areas as the demarcation point that should define the limits of its interconnection transport obligations. However, Verizon's local calling areas are not and should not be the basis for defining network interconnection and where a carrier's financial responsibility for carrying traffic ends.

Q. WHY IS VERIZON'S PROPOSAL WRONG?

A. There is no logical, economic or technical reason to use Verizon's legacy local calling areas to define the basis of network interconnection and the division of financial responsibility between carriers. Verizon's local calling areas are an artifact of a monopoly era and Verizon's network structure as it evolved over time. Over the past century, local calling areas have been developed and modified around the then-current technology and the corresponding network capabilities that Verizon was able to deploy. As modern electronic switches replaced cord switchboards and mechanical switching and as the cost of transport decreased, local calling areas have generally evolved to encompass larger geographical areas. Today's broad geographic coverage of AT&T's local switches simply does not correspond to Verizon's legacy network architecture.

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[33] Verizon Response at 8-13.

Further, Verizon's local calling areas are now used principally for the purpose of setting certain local rates for Verizon's customers.

Moreover, a single local calling area is generally a thing of the past at least in terms of its original significance. Originally, the local calling area was the one and only geographic area within which an end user customer could make local calls. Anything beyond that area was considered a toll call. This is no longer the case. For some time now Verizon has offered expanded local calling area plans, and now even offers essentially LATA-wide local calling in Northern Virginia[34]. The existence of these various calling plan options further dispels any suggestion that there is any real economic or technical significance to the geographic scope of any given local calling area. Rather, the existence of multiple plans for local calling suggests that today the true significance of these geographic areas is as marketing tools to sell different services. Given that these local calling areas are basically marketing tools, one can expect that Verizon's local calling areas may be subject to substantial changes as Verizon and its competitors seek competitive advantages for their respective local service offerings. To have ILEC marketing decisions dictate the foundation of CLEC interconnection requirements is wholly inappropriate.

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[34] Verizon customers in Alexandria-Arlington, Fairfax-Vienna and Falls Church-McLean have virtually LATA-wide local calling and extended area calling within the Virginia portion of LATA 236 . The Stafford exchange (formerly GTE territory) is the only Virginia exchange in LATA 236 NOT included in the local calling area -- but Leesburg, which is part the LATA 246 (Culpeper), IS included. Also, the Norfolk and Newport News local calling areas in LATA 252 encompass all of the LATA except Knotts Island and a portion of the lower peninsula. Richmond has local and extended area calling that

More fundamentally, however, interconnection based solely on Verizon's local calling areas does not foster competition or benefit consumers. To establish interconnection based on Verizon's local calling areas would discourage competitors from expanding their own local calling areas for the benefit of customers and competition. Moreover, using Verizon's local calling areas as the basis for POI locations and financial responsibility substantially compromises the network efficiencies of the alternative network architectures deployed by AT&T which we described above; thus forcing AT&T into an inefficient Verizon-look-a-like interconnection arrangement, and forcing AT&T's customers to bear the burden of those inefficiencies.

Q. BUT DOESN'T VERIZON ALLOW AT&T TO SELECT A SINGLE POI PER LATA?

A. Verizon claims that it does, but a review of its proposal makes it clear that the "right" to select a POI is a right without any significance.

Q. PLEASE EXPLAIN.

A. Although Verizon claims that it accepts AT&T's legal right to designate a single interconnection point per LATA, the compensation elements of Verizon's proposal essentially eliminate that right. Verizon has proposed forcing AT&T to be financially responsible for picking up Verizon traffic at some point in each Verizon basic local calling area and transporting that traffic to AT&T's point of interconnection in the LATA. This proposal would render AT&T's chosen

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encompasses Verizon Virginia's entire portion of the LATA except Cartersville, Cumberland and Fife.

interconnection points meaningless. AT&T derives no benefit from its right to designate interconnection points unless they serve their intended purpose which is to delineate the boundary between the originating carrier's network and payment of reciprocal compensation to the terminating carrier for completing the call. By agreeing that AT&T may interconnect at a single point in a LATA, Verizon knows it offers nothing more than the sleeves out of its own vest since it requires AT&T to pay the cost of transporting Verizon's own originating traffic from the boundaries of its basic local calling areas to the point of interconnection designated by AT&T.

It is a hollow gesture to allow AT&T to designate a single point of interconnection and then require AT&T to pay the difference of the cost of that single point of interconnection and the cost of multiple points of interconnection in every Verizon basic local calling area. Verizon's proposal would effectively eliminate AT&T's right to designate a single point of interconnection, because it would force AT&T to pay Verizon ***as if*** AT&T were required to establish multiple points of interconnection in all of Verizon's basic local calling areas. It is plainly contrary to the objectives set forth by the FCC to allow a CLEC to interconnect at a single point, but then require that CLEC to pay the incumbent carrier for transport facilities as if the CLEC were required to interconnect at multiple points. Any such decision would render meaningless the CLEC's ability to interconnect at a single point in a LATA.

Moreover, this issue does not arise because AT&T has chosen to design its network in some unique or complicated manner. Rather, it arises from the fact

that Verizon's network and AT&T's network are configured differently, yet still must still interconnect to serve a similar geographic base of customers. Because of those differences, if AT&T designates a single point of interconnection in a LATA, it is possible that a call from a Verizon customer in a Verizon basic local calling area to an AT&T customer in that same basic local calling area will have to travel outside the basic local calling area to the point of interconnection before it reaches AT&T's switch and ultimately AT&T's customer. As we indicated earlier, this possibility reflects the different network configurations deployed by AT&T and Verizon, and, in particular, the different emphasis on the number and location of switches.

This difference in design, however, should be a difference without a distinction as far as financial responsibility is concerned. The fact that a call from a Verizon customer to an AT&T customer may have to travel outside the basic local calling area should not in any way undermine AT&T's legal right to designate a single point of interconnection in a LATA.

In effect, however, that is precisely what Verizon's proposal does. Verizon asserts it does not dispute that AT&T has the right to interconnect with Verizon's network at a single point within each LATA.[35] Verizon's position, however, is that it nonetheless should have no obligation to transport its traffic beyond its own

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[35] Verizon Response at 9.

originating switch or tandem, as applicable.[36] Verizon contends that in certain circumstances it is not responsible for any of the costs associated with transporting its traffic beyond the switch from which the call originates. In particular, for calls from customers in a Verizon basic local calling area to AT&T customers in that same basic local calling area which must travel outside the basic local calling area to get to the POI, Verizon would have the authority to declare that Verizon bears no financial responsibility for the cost of getting those calls from its originating switch to the POI. According to Verizon, in those circumstances, AT&T would be responsible for the costs of the facilities needed to transport ***Verizon's own traffic*** from the Verizon originating switch to the point of interconnection. Accordingly, notwithstanding Verizon's stated acceptance of a single point of interconnection in each LATA, Verizon's proposal has the practical, and certainly the economic effect of requiring AT&T to have a physical point of interconnection in every basic local calling area in Virginia.

Q. CAN YOU EXPLAIN HOW THIS PROPOSAL CAN HARM COMPETITION?

A. Yes. As we explained above, to effectively compete for local exchange customers in Virginia, AT&T has designed and deployed a network architecture that is substantially different than the embedded Verizon network. Because of this difference in network architecture some calls from Verizon customers to AT&T customers must be transported beyond the Verizon local calling areas to be

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[36] In its contract, Verizon proposes that it may designate that its IP is at the Verizon originating end office under any one of a number of conditions. Such terms would provide Verizon the discretion to carry traffic to its tandem or require AT&T to pick up Verizon's traffic from the originating switch.

delivered to the AT&T switch serving the terminating AT&T customers. As noted above, despite unequivocal legal obligations requiring each party to bear the cost to transport and terminate its own traffic, Verizon objects to bearing any costs for Interconnection Facilities beyond the Verizon tandem switch, and in numerous circumstances, beyond Verizon's own originating switch. This means that Verizon is proposing that AT&T bear the cost of transporting Verizon's originated local and expanded area calling and intra-LATA toll traffic from Verizon's end office or tandem switch to AT&T's switch for completion of such calls.

While reducing its transport burden for its originating traffic and transferring those costs to AT&T, Verizon also proposes to increase AT&T's transport obligations for AT&T's originating traffic beyond what it is required to bear under the law. According to Verizon, AT&T is financially responsible for delivering its own originating calls (calls from its customers to Verizon customers) into every Verizon end office, but Verizon is not financially responsible for delivering its originating traffic beyond the originating switch or tandem, as applicable. Such an imbalance of responsibility is not only illegal, but is on its face inequitable.

When one takes into consideration the reduction of Verizon's costs with the increased costs imposed upon AT&T and the advantages in market power, network ubiquity and positive economics associated with the large customer base possessed by Verizon, the implications of the Verizon proposal on the development of competition in Virginia and elsewhere are significant and cannot